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SPECIAL REPORT

Bombardier's \$1-billion trade secret

How Canada's hidden loan to Amtrak sealed deal for Quebec firm

Crown Corp. is owed \$22 billion for mystery loans

\$2.8 billion in bad debts
is almost 3 times amount
of Shovelgate grants

Even Canada's auditor general
doesn't know who owes what

BY PAUL MCKAY

While billing itself as "Canada's secret trade weapon," the taxpayer-backed Export Development Corporation has racked up \$22-billion in outstanding loans — of which \$2.8 billion has already been declared deadbeat.

The loan losses are nearly three times the amount involved in the \$1-billion Shovelgate job-grants scandal.

The EDC, which spent \$40 billion last year giving loans and credit insurance to back private Canadian companies abroad, has borrowed \$13 billion against the "full faith and credit" of the government of Canada.

No one outside the EDC's downtown Ottawa headquarters — not even Auditor General Denis Desautels — knows precisely who owes the \$22 billion. Or when it will be repaid. Or what portion is so high-risk it will go into default and never be repaid.

The EDC — the chairman of which is Patrick Lavelle, a longtime political ally of Prime Minister Jean Chrétien — is the federal government's best kept secret, because virtually every deal is done behind closed doors.

Exempt from federal access to information laws, the EDC tells neither the public nor Parliament who gets assistance, the amount of financing, the terms, the collateral, or the risk of non-payment.

"The Corporation has always been exempt to reflect the fact that its operations would be



Pat Lavelle, above, who says 'patronage is not a dirty

Export Development Corp. bailed out U.S. railroads
while Liberals slashed VIA Rail funding

BY PAUL MCKAY

The federal Export Development Corporation lent \$1 billion to the deficit-plagued U.S. railroad Amtrak while the Chrétien government sharply cut other rail funding in Canada.

The money allowed the U.S. government-owned to sidestep a Congressional cap on capital grants. Montreal-based Bombardier Corporation an underdog over rival bids to build Amtrak's \$2.6-billion "Acela Express" high-speed train.

Since 1993, the Chrétien government has cut annual rail funding from \$348 million to \$178 million.

Bombardier and its French partner, GEC-Alsthom, were picked by Amtrak to build the Boston-Washington train in 1996. The premier showcase for advanced technology in the United States, the Acela Express is to be in full service later this year.

The EDC-Amtrak deal violated the spirit — if not the letter — of international trade laws. By secretly backing Bombardier's bid, the Canadian government virtually guaranteed that Bombardier would triumph over rival bids from Germany-based Siemens and Sweden-based Asea Brown Boveri.

The loan package has been a closely guarded secret.

The amount owing climbed from \$690 million to \$1 billion as of the end of 1998. Officials from Bombardier and Amtrak declined to disclose details about the deal.

Details of the EDC-Amtrak loans are not disclosed in EDC annual reports or financial statements. When the *Citizen* requested details in February, EDC public affairs spokesman Rod Giles wrote in reply:

"Unfortunately, due to confidentiality agreements between the parties involved, I am unable to identify the exact purpose of the loan, the Canadian suppliers, or the terms of the loan."

It was the EDC itself which had the confidentiality agreement with Amtrak.

This week, EDC vice-president Eric Siegel confirmed that the \$1 billion involves a package of loans backing Bombardier's bids to obtain orders to supply rail equipment for the United States. Most of that money is linked to the Acela Express.

"It's a series of loans that go back to about the mid-1980s, to Amtrak. It is in respect of the supply of sets and cars primarily by Bombardier, and locomotives by General Motors," Mr. Siegel says.

Asked why the EDC had earlier refused to provide details, Mr. Siegel told the *Citizen* the EDC president had been "out of the loop" on the issue.

He added that Amtrak has maintained interest payments on the \$1-billion loan package, and the loans are not in default.

The EDC-Amtrak deal violated the spirit of international trade laws.